

# Financial Week Newsletter

...as summarized by Smith Shellnut Wilson

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## Equity Markets

- After a few weeks of steady market returns, equities pulled back slightly last week. FOMC March minutes were front and center. Minutes revealed plans for faster policy tightening that were echoed by a chorus of hawkish comments. This, partnered with rising recession fears and a new round of Russian sanctions hung over the markets.

	<u>4/1 Close</u>	<u>4/8 Close</u>	<u>Change</u>
Dow Jones	34,818	34,721	Down 0.3%
S&P 500	4,546	4,488	Down 1.3%
NASDAQ	14,262	13,711	Down 3.9%
KBW Bank Index	122.58	119.79	Down 2.3%
VIX	20.53	21.16	Up 3.1%

## Financials

- Regulators closed no banks last week; year-to-date closures remain at zero.
- FOMC plans to allow a more aggressive balance sheet runoff have financial institutions beginning to question everything from interest rate risk to future real estate value disruptions. Following the FOMC minute release on Wednesday financial stocks fell immediately.

## Rates/Spreads

- Treasury yields were up across every duration as investors sold bonds during the week.

	<u>4/1 Close</u>	<u>4/8 Close</u>	<u>Change</u>
3mo UST	0.56%	0.70%	Up 14 bp
2yr UST	2.45%	2.52%	Up 7 bp
5yr UST	2.57%	2.76%	Up 19 bp
10yr UST	2.40%	2.70%	Up 30bp
2-10yr UST Spread	-5bp	18bp	Up 23 bp
10yr Inflation Rate	2.79%	2.89%	Up 10bp

- The curve returned some steepness this week. 2-to-10-year Treasury spreads went from negative to positive as the market sold longer bonds in response to Fed comments regarding more aggressive tightening and what impact that could have to longer term interest rates.

## Treasury/Fed/Administration/Congress

- Fed officials signaled they could raise their benchmark interest rate by a half-percentage point and could begin reducing their \$9 trillion asset portfolio at their next meeting in May, minutes of their March 15-16 meeting showed.
- In testimony to the House Financial Services Committee, Janet Yellen said the U.S. would not participate in Group of 20 meetings that include Russia.
- Senate Majority Leader Chuck Schumer, D-N.Y., took a procedural step to limit debate on Lael Brainard's nomination for Fed vice chair and Lisa Cook's nomination for Fed governor when senators return from a two-week break. Biden's other two nominees — Jerome Powell for another term as Fed chair and Philip Jefferson for Fed governor — have widespread support and will not face Republican attempts to extend debate.

## Economy

- U.S. February New Factory orders fell 0.5% (consensus -0.6%). It was the first decline in nine months.
- Durables orders for Feb. fell 2.1% after rising 1.5% in Jan.
- March ISM Service Gauge rose to 58.3 (58.5 est.) from 56.5. Growth at U.S. service providers picked up in March as employment and orders strengthened.
- Federal Reserve officials "generally agreed" last month to trim \$60 billion per month from the U.S. central bank's Treasury holdings and \$35 billion from its holdings of mortgage-backed securities, phased in over a period of three months "or modestly longer," according to minutes of the March 15-16 policy meeting. Participants also "generally agreed" that after the balance sheet runoff was "well underway" it would be appropriate to consider outright sales of MBS. No final decision was made but officials made indications that reducing the size of the balance sheet could begin at the May 3-4 policy meeting.
- Wholesale inventories in the U.S. (actual 2.5% vs 2.1% expected) surged by more than expected in the month of February.

## This Week

Economic data scheduled to be released this week include Mar. CPI (Tues), Mar. PPI (Wed), Mar. Retail Sales (Thur), UofM Sentiment (Thur)

## Quote

"If you look closely, most overnight successes took a long time." — Steve Jobs